

CITY OF CONRAD
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-25
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28
Notes to Other Information – Budgetary Reporting		29
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	31
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Fund	2	33
Schedule of Indebtedness	3	34-35
Bond and Note Maturities	4	36
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	37
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		38-39
Schedule of Findings		41-43

City of Conrad

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Gregg Sharp	Mayor	Jan 2012
Lee Ann Lynch	Mayor Pro tem	Jan 2012
Brad Murty	Council Member	Jan 2014
Jeff Martin	Council Member	Jan 2012
Gary Sattler	Council Member	Jan 2014
Sue McLeland	Council Member	Jan 2012
Denise Hoy	Clerk/Treasurer	Indefinite
Kirby Schmidt	Attorney	Indefinite
(After January 2012)		
Jeff Martin	Mayor	Jan 2014
Brad Murty	Mayor Pro tem	Jan 2014
Todd Schnathorst	Council Member	Jan 2016
Ryan Calloway	Council Member	Jan 2016
Peg Brown	Council Member	Jan 2016
Gary Sattler	Council Member	Jan 2014
Denise Hoy	Clerk/Treasurer	Indefinite
Kirby Schmidt	Attorney	Indefinite

City of Conrad

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Conrad's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 on our consideration of the City of Conrad's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Conrad's basic financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Conrad's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 and 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Dennis P. Donovan, PC

November 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Conrad provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 1%, or approximately \$4,710, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately \$11,014.
- Disbursements of the City's governmental activities increased 56%, or approximately \$464,358, in fiscal year 2012 from fiscal year 2011. Public works, debt service and capital projects disbursements increased approximately \$30,389, \$389,083 and \$49,062, respectively.
- The City's total cash basis net assets decreased 32%, or approximately \$383,275, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$415,624 and the assets of the business type activities increased approximately \$32,349.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the storm water system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer, Sewer Sinking and Storm Water Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$1.118 million to approximately \$702,597. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for service	\$ 61	52
Operating Grants, contributions and restricted interest	171	186
Capital Grants, contributions and restricted interest	20	43
General Receipts:		
Property tax	490	492
Local option sales tax	84	85
Unrestricted interest on investments	8	12
Other general receipts	48	8
Total receipts	882	878
Disbursements:		
Public safety	92	87
Public works	149	118
Health and social services	-	2
Culture and recreation	210	217
Community and economic development	98	101
General government	68	66
Debt service	588	199
Capital projects	84	35
Total disbursements	1,289	825
Change in cash basis net assets before transfers	(407)	53
Transfers, net	(8)	(2)
Change in cash basis net assets	(415)	51
Cash basis net assets beginning of year	1,118	1,067
Cash basis net assets end of year	\$ 703	1,118

The City's total receipts for governmental activities increased 1%, or approximately \$4,710. The total cost of all programs and services increased approximately \$464,358, or 56%, with no new programs added this year. The significant increase in the cost of programs was due to an additional \$410,000 paid on library debt.

The cost of all governmental activities this year was approximately \$1.289 million compared to approximately \$824,774 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$1.037 million because some of the cost was paid by those directly benefited from the programs (approximately \$61,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$191,058). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from approximately \$280,395 to approximately \$252,137.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for service		
Water	\$ 186	114
Sewer	200	207
Storm Water	27	26
Capital Grants, contributions and restricted interest	56	733
General Receipts:		
Bond Proceeds	-	70
Total Receipts	469	1,150
Disbursements:		
Water	182	131
Sewer	257	1,045
Storm Water	6	20
Total disbursements	445	1,196
Change in cash basis net assets before transfers	24	(46)
Transfers, net	9	4
Change in cash basis net assets	33	(42)
Cash basis net assets beginning of year	93	135
Cash basis net assets end of year	\$ 126	93

Total business type activities receipts for the fiscal year were approximately \$469,000 compared to approximately \$1.150 million last year. This significant decrease was due primarily to the receipt of \$70,000 of sewer construction general obligation bond proceeds and \$733,000 capital grant received in 2011. The cash balance increased approximately \$33,000 from the prior year because of the increase in water charges versus the increase in water disbursements. Total disbursements for the fiscal year decreased 63% to approximately \$445,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Conrad completed the year, its governmental funds reported a combined fund balance of \$702,597, an decrease of \$415,624 below last year's total of \$1,118,221. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$352,642 from the prior year to \$658,936. The decrease is primarily due to an additional \$410,000 of debt paid on the library debt.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$3,265 to \$54,819. This is not a significant decrease.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance had a deficit of \$5,850, a decrease of \$11,841 from the previous year. The decrease was the result of less tax increment financing revenue in 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$4,477 to \$17,237, due primarily to an increase in the sale of water.
- The Enterprise, Sewer Fund cash balance increased \$7,228 to \$65,997, due primarily to the increase in sewer rates.
- The Enterprise, Storm Sewer Fund cash balance increased \$20,644 to \$42,555, due primarily to the decrease in disbursements in 2012.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2012 and resulted in an increase in operating disbursements of approximately \$627,985, primarily for additional amounts paid on the library debt.

The City's receipts were \$31,183 less than budgeted. This was primarily due to the City receiving less in interest and rent and intergovernmental receipts.

With the budget amendment, total disbursements were \$115,148 less than the amended budget. Actual disbursements for the public works, debt service and business type activities were less than the amended budget.

The City exceeded the amounts budgeted in the community and economic development function for the year ended June 30, 2012 by \$1,236.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,002,494 of bonds and other long-term debt outstanding, compared to \$1,632,924 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2012	2011
General Obligation Notes	\$ 205	255
Urban Renewal tax increment financing revenue bonds	95	595
Revenue notes	644	722
Interfund loan	58	60
Total	\$ 1,002	1,632

Debt decreased as a result of making regular payments on debt as well as an additional \$410,000 of library debt in 2012. CD's held for the Library in escrow until maturity were redeemed by the City to pay this additional debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$300,000 is significantly below its constitutional debt limit of approximately \$2.8 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Conrad's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees that will be charged for various City activities. At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could affect its financial health in the future.

- There are 6 lots available in the residential development of Wolf Creek Estate and the City recently purchased 20 acres for a new housing development. The City anticipates a growth in valuation over the next several years due to lot sales and new housing starts.
- The City is engaged in CDBG Façade Improvement project. Nearly \$900,000 will be invested in Conrad's business district which will increase growth in valuation and attract new business starts.
- The Council is currently studying a rate increase for the water utility.
- The uptick in property tax rollback and increased valuation has kept the tax rate in Conrad steady.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Denise Hoy, City Clerk, 204 East Center Street, P. O. Box 429, Conrad, Iowa 50621-0429.

Basic Financial Statements

City of Conrad

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges For Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 91,568	5,285	18,972	-
Public works	148,983	-	105,095	-
Health and social services	515	-	-	-
Culture and recreation	209,966	32,771	38,873	-
Community and economic development	98,187	-	-	-
General government	67,798	19,607	702	-
Debt service	588,414	3,416	7,567	-
Capital projects	83,701	-	-	19,849
Total governmental activities	1,289,132	61,079	171,209	19,849
Business type activities:				
Water	181,832	186,309	-	-
Sewer	257,474	200,263	-	55,567
Storm water	5,976	26,620	-	-
Total business type activities	445,282	413,192	-	55,567
Total	\$ 1,734,414	474,271	171,209	75,416
General Receipts and Transfers:				
Property and other City tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements)Receipts and Change in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(67,311)	-	(67,311)
(43,888)	-	(43,888)
(515)	-	(515)
(138,322)	-	(138,322)
(98,187)	-	(98,187)
(47,489)	-	(47,489)
(577,431)	-	(577,431)
(63,852)	-	(63,852)
(1,036,995)	-	(1,036,995)
-	4,477	4,477
-	(1,644)	(1,644)
-	20,644	20,644
-	23,477	23,477
(1,036,995)	23,477	(1,013,518)
316,654	-	316,654
56,395	-	56,395
117,593	-	117,593
83,839	-	83,839
7,807	-	7,807
47,955	-	47,955
(8,872)	8,872	-
621,371	8,872	630,243
(415,624)	32,349	(383,275)
1,118,221	93,440	1,211,661
\$ 702,597	125,789	828,386
\$ 54,819	-	54,819
10,399	-	10,399
26,958	-	26,958
610,421	125,789	736,210
\$ 702,597	125,789	828,386

City of Conrad
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and For the Year ended June 30, 2012

	Special Revenue				Total
	General	Road Use Tax	Urban Renewal Tax Increment	Nonmajor	
Receipts:					
Property tax	\$260,906	-	-	112,143	373,049
Tax increment financing	-	-	117,593	-	117,593
Other city tax	-	-	-	83,839	83,839
Licenses and permits	2,020	-	-	-	2,020
Use of money and property	23,385	-	-	-	23,385
Intergovernmental	42,091	105,095	-	27,416	174,602
Charges for service	50,195	-	-	-	50,195
Special assessments	-	-	-	3,417	3,417
Miscellaneous	49,064	-	-	5,216	54,280
Total receipts	427,661	105,095	117,593	232,031	882,380
Disbursements:					
Operating:					
Public safety	90,290	-	-	1,278	91,568
Public works	26,061	108,360	-	14,562	148,983
Health and social services	515	-	-	-	515
Culture and recreation	196,291	-	-	13,675	209,966
Community and economic development	15,323	-	16,282	66,582	98,187
General government	60,580	-	-	7,218	67,798
Debt service	410,509	-	113,152	64,753	588,414
Capital projects	-	-	-	83,701	83,701
Total disbursements	799,569	108,360	129,434	251,769	1,289,132
Deficiency of receipts under disbursements	(371,908)	(3,265)	(11,841)	(19,738)	(406,752)
Other financing sources(uses):					
Operating transfers in	19,266	-	-	-	19,266
Operating transfers out	-	-	-	28,138	(28,138)
Total other financing sources(uses)	19,266	-	-	(28,138)	(8,872)
Net change in cash balances	(352,642)	(3,265)	(11,841)	(47,876)	(415,624)
Cash balances beginning of year	1,011,578	58,084	5,991	42,568	1,118,221
Cash balances end of year	\$658,936	54,819	(5,850)	(5,308)	702,597
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	54,819	-	-	54,819
Debt service	-	-	-	10,399	10,399
Other purposes	-	-	-	26,958	26,958
Assigned	385,794	-	-	-	385,794
Unassigned	273,142	-	(5,850)	(42,665)	224,627
Total cash basis fund balances	\$ 658,936	54,819	(5,850)	(5,308)	702,597

See notes to financial statements.

City of Conrad
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise					Total
	Water	Sewer	Sewer Sinking	Storm Water	Nonmajor	
Operating receipts:						
Charges for service	\$183,920	200,263	-	26,620	-	410,803
Miscellaneous	2,389	-	-	-	-	2,389
Total operating receipts	186,309	200,263	-	26,620	-	413,192
Operating disbursements:						
Business type activities	181,832	92,099	-	5,976	-	279,907
Total operating disbursements	181,832	92,099	-	5,976	-	279,907
Excess of operating receipts over operating disbursements	4,477	108,164	-	20,644	-	133,285
Non-operating receipts(disbursements):						
Intergovernmental					55,567	55,567
Debt service			(100,021)			(100,021)
Capital projects					(65,354)	(65,354)
Net non-operating receipts(disbursements)	-	-	(100,021)	-	(9,787)	(109,808)
Excess (deficiency) of receipts over (under) disbursements	4,477	108,164	(100,021)	20,644	(9,787)	23,477
Operating transfers in		12,576	100,021		9,787	122,384
Operating transfers out		(113,512)				(113,512)
Total transfers	-	(100,936)	100,021	-	9,787	8,872
Net change in cash balances	4,477	7,228	-	20,644		32,349
Cash balances beginning of year	12,760	58,769	-	21,911	-	93,440
Cash balances end of year	\$ 17,237	65,997	-	42,555	-	125,789
Cash Basis Fund Balances						
Unrestricted	\$ 17,237	65,997	-	42,555	-	125,789
Total cash basis fund balances	\$ 17,237	65,997	-	42,555		125,789

See notes to financial statements.

City of Conrad

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Conrad is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Conrad has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Grundy County Assessor's Conference Board, Grundy County Landfill Commission, Grundy County Emergency Management Commission, Grundy County Sheriff's Office-Law Enforcement and Grundy County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Sewer Sinking Fund accounts for transfers from the Sewer Fund and payment of all principal and interest on the Sewer Revenue Bonds.

The Enterprise, Storm Water Fund, accounts for receipts for storm water charges and disbursements for drainage.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 46,000	7,035	95,000	3,515	82,000	19,320	223,000	29,870
2014	48,000	5,357	-	-	85,000	16,860	133,000	22,217
2015	49,000	3,615	-	-	88,000	14,310	137,000	17,925
2016	38,000	1,949	-	-	91,000	11,670	129,000	13,619
2017	24,000	675	-	-	96,000	8,940	120,000	9,615
2018-2019	-	-	-	-	202,000	9,150	202,000	9,150
	<u>\$ 205,000</u>	<u>18,631</u>	<u>95,000</u>	<u>3,515</u>	<u>644,000</u>	<u>80,250</u>	<u>944,000</u>	<u>102,396</u>

General Obligation Notes

The City issued \$310,000, \$60,000, \$128,000 and \$70,000 of general obligation notes in fiscal years 2002, 2009, 2010 and 2011 respectively, for the purpose of defraying the costs of a street improvement project, purchasing a Street tractor, defraying the costs of a street improvement project and defraying the costs of a sewer improvement project. Total principal and interest remaining on the notes is \$205,000 and \$18,631, respectively, payable through June 2017. For the current year, interest paid was \$14,363 and principal was \$50,390. The 2002 General Obligation Street Improvement Note was paid in full.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$1,000,000 of urban renewal tax increment financing (TIF) revenue bonds in November of 2007 for the purpose of constructing, equipping and furnishing a new library. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$95,000 and approximately \$3,515, payable through June 2013. For the current year, interest paid and total TIF receipts were \$23,086 and \$117,593, respectively.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,461,000 of two sewer revenue notes issued in April of 1999. Proceeds from the notes provided financing for the construction of certain wastewater treatment facilities serving the City. The notes are payable solely from sewer customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$724,250. For the current year, principal and interest paid and total customer net receipts were \$99,660 and \$200,263, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

Interfund Loan

The City approved an interfund loan of \$75,000 from the General Fund to the Enterprise Fund-Sewer in June of 2006. Two semiannual transfers for \$3,804 are made from the Enterprise Fund-Sewer to the General Fund to repay the loan according to the original resolution. During the year ended June 30, 2012, only one transfer was made. The transfer was subsequently made to the General Fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$14,641, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,411
Sick leave	<u>11,917</u>
Total	<u>\$ 20,328</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	
General	Special Revenue:	
	Employee Benefits	\$ 15,562
	Enterprise:	
	Sewer	<u>3,704</u>
		19,266
Enterprise Sewer	Special Revenue:	
	Local Option Sales Tax	12,576
Sewer Sinking 2010 CDBG Sewer	Enterprise:	
	Sewer	100,021
	Sewer	<u>9,787</u>
		<u>122,384</u>
		<u>\$ 141,650</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$29,902.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Financial Condition

The Tax Increment Financing Revenue Fund had a deficit balance of \$5,850 at June 30, 2012. The Capital Projects Fund had a deficit balance of \$42,665 at June 30, 2012.

(9) Subsequent Events

The City was awarded a Community Development Block Grant totaling \$500,000 for a Façade Improvement Project in Conrad.

City of Conrad

Other Information

City of Conrad
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances-
 Budget and Actual (Cash Basis)-All Governmental and Proprietary Funds

Other Information

Year Ended June 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Receipts:						
Property tax	\$ 373,049	-	373,049	365,558	365,558	7,491
Tax increment financing	117,593	-	117,593	119,401	119,401	(1,808)
Other city tax	83,839	-	83,839	84,806	84,806	(967)
Licenses and permits	2,020	-	2,020	1,675	1,675	345
Use of money and property	23,385	-	23,385	26,700	64,968	(41,583)
Intergovernmental	174,602	55,567	230,169	148,888	286,253	(56,084)
Charges for services	50,195	413,192	463,387	442,736	452,736	10,651
Special assessments	3,417	-	3,417	4,325	4,325	(908)
Miscellaneous	54,280	-	54,280	2,600	2,600	51,680
Total Receipts	882,380	468,759	1,351,139	1,196,689	1,382,322	(31,183)
Disbursements:						
Operating:						
Public safety	91,568	-	91,568	97,438	98,938	7,370
Public works	148,983	-	148,983	149,935	176,789	27,806
Health & social services	515	-	515	2,300	2,300	1,785
Culture and recreation	209,966	-	209,966	203,534	219,364	9,398
Community and economic development	98,187	-	98,187	85,452	96,951	(1,236)
General government	67,798	-	67,798	74,818	74,818	7,020
Debt service	588,414	-	588,414	209,308	619,308	30,894
Capital projects	83,701	-	83,701	-	90,248	6,547
Business type activities	-	445,282	445,282	398,792	470,846	25,564
Total disbursements	1,289,132	445,282	1,734,414	1,221,577	1,849,562	115,148
Excess(deficiency)of receipts over (under)disbursements	(406,752)	23,477	(383,275)	(24,888)	(467,240)	83,965
Other financing sources, net	(8,872)	8,872	-	-	-	-
Excess (deficiency) of receipts and financing sources over(under) disbursements and and other financing uses	(415,624)	32,349	(383,275)	(24,888)	467,240	83,965
Balances beginning of year	1,118,221	93,440	1,211,661	1,139,929	1,211,369	292
Balances end of year	\$ 702,597	125,789	828,386	1,115,041	744,129	84,257

See accompanying independent auditors' report.

City of Conrad

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$627,985. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development and capital projects functions.

Supplementary Information

City of Conrad
 Schedule of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Governmental Funds
 As of and for the year ended June 30, 2012

	Special Revenue				Total
	Employee Benefits	Local Option Sales Tax	Debt Service	Capital Projects	
Receipts:					
Property tax	\$ 55,748	-	56,395	-	112,143
Other city tax	-	83,839	-	-	83,839
Intergovernmental	-	-	7,567	19,849	27,416
Special assessments	-	-	3,417	-	3,417
Miscellaneous	-	-	-	5,216	5,216
Total receipts	<u>55,748</u>	<u>83,839</u>	<u>67,379</u>	<u>25,065</u>	<u>232,031</u>
Disbursements:					
Operating:					
Public safety	1,278	-	-	-	1,278
Public works	14,562	-	-	-	14,562
Culture and recreation	13,675	-	-	-	13,675
Community and economic development	2,254	64,328	-	-	66,582
General government	7,218	-	-	-	7,218
Debt service	-	-	64,753	-	64,753
Capital projects	-	-	-	83,701	83,701
Total disbursements	<u>38,987</u>	<u>64,328</u>	<u>64,753</u>	<u>83,701</u>	<u>251,769</u>
Excess (deficiency) of receipts over (under) disbursements	<u>16,761</u>	<u>19,511</u>	<u>2,626</u>	<u>(58,636)</u>	<u>(19,738)</u>
Other financing uses:					
Operating transfers out	<u>(15,562)</u>	<u>(12,576)</u>	-	-	<u>(28,138)</u>
Net change in cash balances	1,199	6,935	2,626	(58,636)	(47,876)
Cash balances beginning of year	3,354	15,470	7,773	15,971	42,568
Cash balances end of year	<u>\$ 4,553</u>	<u>22,405</u>	<u>10,399</u>	<u>(42,665)</u>	<u>(5,308)</u>
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	-	10,399	-	10,399
Other purposes	4,553	22,405	-	-	26,958
Unassigned	-	-	-	(42,665)	(42,665)
Total cash basis fund balances	<u>\$ 4,553</u>	<u>22,405</u>	<u>10,399</u>	<u>(42,665)</u>	<u>(5,308)</u>

See accompanying independent auditors' report.

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City of Conrad
 Schedule of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise
	CDBG
	Sewer
Operating receipts:	
Charges for service	\$ -
Total operating receipts	-
Operating disbursements:	
Business type activities	-
Total operating disbursements	-
Excess of operating receipts over operating disbursements	-
Non-operating receipts(disbursements):	
Intergovernmental	55,567
Capital projects	(65,354)
Net non-operating receipts(disbursements)	(9,787)
Deficiency of receipts under disbursements	(9,787)
Operating transfers in	9,787
Net change in cash balances	-
Cash balances beginning of year	-
Cash balances end of year	\$ -
Cash Basis Fund Balances	
Unrestricted	\$ -
Total cash basis fund balances	\$ -

See accompanying independent auditors' report.

City of Conrad
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
Street Tractor Acquisition Note	July 9, 2009	3.50%	\$ 60,000
Street Improvement Note	April 23, 2010	3.75%	128,000
Sewer Improvement Note	March 24, 2011	3.50%	70,000
Maple Avenue/Duesenberg Drive-Street Improvement	April 15, 2002	5.00%	310,000
Urban Renewal tax increment financing revenue bonds:			
Library Building Project-UR Tax Increment Revenue Bonds, Series 2007	November 30, 2007	3.70%	\$1,000,000
Revenue Notes:			
Sewer Revenue Bonds-Series 1999B- CWSRF Series 2001-CW9608R	April 26, 1999	3.00%	\$ 993,612
Sewer Revenue Bonds-Series 1999A- CWSRF Series 2001-CW9005R	April 26, 1999	3.00%	467,388
Interfund Loan:			
Enterprise-Sewer to General Fund	June 1, 2007	5.50%	\$ 75,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
49,000		11,000	38,000	1,623	-
128,000	-	18,000	110,000	9,898	-
70,000		13,000	57,000	2,801	-
8,390		8,390	-	41	-
<u>\$255,390</u>	-	<u>50,390</u>	<u>205,000</u>	<u>14,363</u>	-
<u>595,000</u>		<u>500,000</u>	<u>95,000</u>	<u>23,086</u>	-
491,000	-	53,000	438,000	14,730	-
231,000	-	25,000	206,000	6,930	-
<u>\$722,000</u>	-	<u>78,000</u>	<u>644,000</u>	<u>21,660</u>	-
<u>60,534</u>		<u>2,039</u>	<u>58,494</u>	<u>1,665</u>	

City of Conrad
Bond and Note Maturities
6/30/2012

General Obligation Notes								
Year	2009 Case Tractor		2010 Main Street		Sewer CDBG Project		Total	
	Issued	July 9, 2009	Issued	April 26, 2010	Issued	March 24, 2011		
Ending	Interest		Interest		Interest			
June 30,	Rates	Amount	Rates	Amount	Rates	Amount		
2013	3.50%	\$ 12,000	3.75%	\$ 20,000	3.50%	\$ 14,000	\$ 46,000	
2014	3.50%	13,000	3.75%	21,000	3.50%	14,000	48,000	
2015	3.50%	13,000	3.75%	22,000	3.50%	14,000	49,000	
2016	3.50%	-	3.75%	23,000	3.50%	15,000	38,000	
2017	3.50%	-	3.75%	24,000	-	-	24,000	
Total		<u>\$ 38,000</u>		<u>\$ 110,000</u>		<u>\$ 57,000</u>	<u>\$ 205,000</u>	

Year	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Sewer		Revenue Notes Sewer		Total
	Issued	Nov 30, 2007	Issued	April 26, 1999	Issued	April 26, 1999	
Ending	Interest		Interest		Interest		
June 30,	Rates	Amount	Rates	Amount	Rates	Amount	
2013	3.70%	\$ 95,000	3.00%	\$ 56,000	3.00%	\$ 26,000	\$ 82,000
2014		-	3.00%	58,000	3.00%	27,000	85,000
2015		-	3.00%	60,000	3.00%	28,000	88,000
2016		-	3.00%	62,000	3.00%	29,000	91,000
2017		-	3.00%	65,000	3.00%	31,000	96,000
2018		-	3.00%	67,000	3.00%	32,000	99,000
2019		-	3.00%	70,000	3.00%	33,000	103,000
Total		<u>\$ 95,000</u>		<u>\$ 438,000</u>		<u>\$ 206,000</u>	<u>\$ 644,000</u>

See accompanying independent auditors' report.

City of Conrad
 Schedule of Receipts by Source and Disbursements by Function-
 All Governmental Funds
 For the year ended June 30, 2012

Receipts:	2012
Property tax	\$ 373,049
Tax increment financing	117,593
Other city tax	83,839
Licenses and permits	2,020
Use of money and property	23,385
Intergovernmental	174,602
Charges for service	50,195
Special assessments	3,417
Miscellaneous	54,280
Total	\$ 882,380
Disbursements:	
Operating:	
Public safety	\$ 91,568
Public works	148,983
Health and social services	515
Culture and recreation	209,966
Community and economic development	98,187
General government	67,798
Debt service	588,414
Capital projects	83,701
Total	\$ 1,289,132

See accompanying independent auditors' report.

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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Conrad, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 15, 2012. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditors' Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Conrad is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Conrad's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Conrad's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Conrad's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Conrad's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Conrad's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Conrad's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Conrad's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Conrad and other parties to whom the City of Conrad may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Conrad during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Dennis P. Donovan, PC

November 15, 2012

City of Conrad

City of Conrad

Schedule of Findings

Year Ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the City:

1. Accounting System-performing all general accounting functions, including journal entries, and having custody of City assets.
2. Cash-reconciling bank accounts, initiating cash receipts and disbursement functions and handling and recording cash.
3. Receipts-collecting, depositing, journalizing and posting.
4. Utility receipts- billing, collecting, depositing, posting and reconciling.
5. Disbursements- purchasing, check signing, recording and reconciling.
6. Financial reporting- preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response and Corrective Action Planned – The Mayor or a member of the Finance Committee reviews the invoices prior to approval. The Mayor or the Mayor Pro-tem reviews each check prior to signing manually, approval and distribution. The bank reconciliations are reviewed monthly and initialed by the reviewer. The City is receptive to suggestions for improving internal control.

Conclusion – Response accepted.

(B) Lack of Written Policies and Procedures- The City has adopted a written disaster recovery plan, however, certain items were not included in the plan. The plan does not include an inventory of all essential software systems, requirements for supplies and relevant accounting manuals and other documentation to be located offsite and a requirement to test the plan.

Recommendation – The City should include the above noted items in its written disaster recovery plan.

Response- These items will be considered in future plans.

Conclusion – Response accepted.

City of Conrad
Schedule of Findings
Year Ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the community and economic development and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
That Place	Fire Annual Meeting Expense	\$ 377

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – The Council approves the disbursement annually, however there is no written policy. We will comply with this recommendation.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Conrad

Schedule of Findings

Year Ended June 30, 2012

- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- (9) Financial Condition – The Tax Increment Financing Revenue Fund and the Capital Projects Fund had deficit balances of \$5,850 and \$42,665 respectively at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The Tax Increment Financing deficit was a result of expenses related to an urban renewal plan amendment and a shortfall in revenues. The deficit will be eliminated by certification of the tax increment financing revenues in fiscal 2014. The Capital projects deficit was due to construction costs incurred prior to receipt of a federal grant. The deficit was subsequently eliminated.

Conclusion – Response accepted.